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Investors Warned of Top 10 Scams for 2004

NEWARK - Attorney General Peter C. Harvey, the New Jersey Division of Consumer Affairs and the New Jersey Bureau of Securities today warned that investors are being targeted with increasingly complex and confusing investment frauds. They identified the Top 10 schemes investors are likely to see in 2004. New to this year's list are mutual fund practices, senior investment fraud and variable annuities.

"New Jersey residents who are investing to fund their retirements, college education for their children and other life milestones need to be wary of scams and frauds," Attorney General Harvey said. "Nest eggs that people have spent a lifetime scraping together can be wiped out in an instant by con artists and criminals. Investors have an ally in the New Jersey Bureau of Securities. We urge investors to contact the Bureau of Securities to obtain important information about potential investments before they entrust their hard-earned dollars with investment companies."

The New Jersey Bureau of Securities (BOS) registers and regulates individuals and firms that provide investment advice or sell investment securities in New Jersey. These securities include stocks, bonds, mutual funds and other investment vehicles.

"The BOS last year filed suit against a northern New Jersey investment company that we allege bilked \$12 million from at least 195 investors," said Reni Erdos, Director of the Division of Consumer Affairs. "That's one example of our enforcement actions on behalf of investors. Our fight against investor fraud never stops because each year con artists discover new ways to fleece the public."

The BOS can be contacted at 973-504-3600 or through Consumer Affairs' web site, <http://www.state.nj.us/lps/ca/bos.htm>

"Our primary mission is to protect investors, and this Top 10 list is designed to alert the public to the most common dangers," said Franklin L. Widmann, Chief of the BOS. "We urge investors to read this list carefully and heed its warnings."

Widmann also is president-elect of NASAA, the North American Securities Administrators Association. The association represents 66 state, provincial and territorial securities administrators in the United States, Canada, Mexico and Puerto Rico.

NASAA today announced a new interactive Fraud Center on its web site, www.nasaa.org. The center features details of the Top 10 scams, schemes and scandals; tips on how to detect con

artists and avoid becoming a victim; an Investor "Bill of Rights;" instructions on how to file an investment-related complaint; and contact information for each state securities regulator.

The following ranking of scams, schemes and scandals for 2004 is based on a survey of state securities regulators conducted by NASAA. The list is based on the order of prevalence and seriousness as identified by state securities regulators:

1) Ponzi Schemes, 2) Senior Investment Fraud, 3) Promissory Notes, 4) Unscrupulous Broker/Dealer Representatives, 5) Affinity Fraud, 6) Insurance Agent Securities Fraud, 7) Prime Bank/High-Yield Investment Schemes, 8) Internet Fraud, 9) Mutual Fund Business Practices, 10) Variable Annuities.

1. PONZI SCHEMES. Named for swindler Charles Ponzi, who in the early 1900s took investors for \$10 million by promising 40 percent returns, these schemes are a perennial favorite among con artists. The premise is simple: promise high returns to investors and use money from new investors to pay previous investors. Inevitably, the schemes collapse and the only people who consistently make money are the promoters who set the Ponzi in motion.

2. SENIOR FRAUD. Volatile stock markets, low interest rates, rising health care costs, and increasing life expectancy, combined to create a perfect storm for investment fraud against senior investors. State securities regulators said older investors are being targeted with increasingly complex investment scams involving unregistered securities, promissory notes, charitable gift annuities, viatical settlements, and Ponzi schemes all promising inflated returns. To learn more, visit NASAA's Senior Investor Resource Center at <http://www.nasaa.org/nasaa/sirc/sirc.asp>.

3. PROMISSORY NOTES. A long-time member of the Top 10 list, these short-term debt instruments often are sold by independent insurance agents and issued by little known or non-existent companies promising high returns - upwards of 15 percent monthly - with little or no risk. When interest rates are low, investors often are lured by the higher, fixed returns that promissory notes offer. These notes, however, can become vehicles for fraud when the issuer of the note has no intention or capability of ever delivering the returns promised by the sales person.

4. UNSCRUPULOUS BROKERS. Despite the stock market's rebound in 2003, state securities regulators say they are still receiving a high level of complaints from investors of brokers cutting corners or resorting to outright fraud to fatten their wallets. "Investors must examine their brokerage statements and ask hard questions about fees, unauthorized trades or other questionable practices," Widmann said.

5. AFFINITY FRAUD. Con artists know that its only human nature to trust people who are like yourself. That's why scammers often use their victim's religious or ethnic identity to gain the victim's trust and then steal their life savings. No group seems to be immune from fraud.

6. INSURANCE AGENTS AND OTHER UNLICENSED SECURITIES SELLERS. While most independent insurance agents are honest professionals, too many are lured by high commissions into selling fraudulent or high-risk investments, such as promissory notes, ATM and payphone investment contracts and viatical settlements. The person running the scam instructs the independent sales force - usually insurance agents but sometimes investment advisers and accountants - to promise high returns with little or no risk.

7. PRIME BANK SCHEMES. Another perennial favorite of con artists is to promise investors triple-digit returns through access to the investment portfolios of the world's elite banks. The negative publicity attached to these schemes has caused promoters in recent cases to avoid explicitly referring to prime banks. Now it is common to avoid the term altogether and underplay the role of banks by referring to these schemes as "risk free guaranteed high yield instruments" or something equally deceptive.

8. INTERNET FRAUD. With the Internet becoming a common part of daily life for increasing numbers of people, it should be no surprise that con artists have made cyberspace a prime

hunting ground for victims. Internet fraud has become a booming business. The most recent figures show cyberfraudsters took in \$122 million in 2002, according to the Federal Trade Commission. Investors are warned to ignore e-mail offers from individuals representing themselves as Nigerian or West African government or business officials in need of help to deposit large sums of money in overseas bank accounts.

9. MUTUAL FUND BUSINESS PRACTICES. Although mutual funds play a tremendous role in the wealth and savings of our nation, ongoing scandals throughout the industry clearly demonstrate that some in the mutual fund industry are putting their own interests ahead of America's 95 million mutual fund shareholders. State securities regulators, the SEC, NASD, and mutual-fund firms themselves have launched a series of inquiries into mutual fund trading practices. To date, more than a dozen mutual funds are under investigation and several mutual funds and mutual fund employees have either pleaded guilty, been charged or settled with state regulators. "These investigations represent a fundamental betrayal and unfairness toward investors. Among other things, the perpetrators give special treatment to certain favored shareholders and insiders," Widmann said. "We will continue to actively pursue inquiries into mutual fund improprieties and are committed to aggressively addressing mutual fund complaints raised by investors."

10. VARIABLE ANNUITIES. Sales of variable annuities have increased dramatically over the past decade. As sales have risen, so too have complaints from investors. Regulators are concerned that investors aren't being told about high surrender charges and the steep sales commissions agents often earn when they move investors into variable annuities. Some investors also are misled with claims of guaranteed returns when variable annuity returns actually are vulnerable to the volatility of the stock market. The benefits of variable annuities - tax-deferral, death benefits among others - come with strings attached and additional costs. High commissions often are the driving force for sales of variable annuities. Often pitched to seniors through investment seminars, regulators say these products are unsuitable for many retirees. Variable annuities make sense only for consumers willing to invest for 10 years or longer, but they are not suitable for many retirees who cannot afford to lock up their money for a long time.

"The best defense an investor can take is to seek information about the investment and the person selling it," Widmann said. "Investors can check out who they are dealing with by contacting the Bureau of Securities."

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